NOVEMBER, 1946

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

The Meat Situation

Large But Inadequate Supply Foreseen

An on-again off-again meat supply situation plagued the domestic economy during parts of the recent war period and became particularly severe following the end of hostilities. "Where is the meat?" was asked daily across vegetable plate luncheons in many centers during the "off" periods. Although this query became monotonous, the suggestions as to both causes and remedies continued in variety.

Under price control, supplies of meat were expected to increase gradually during the remainder of the year but were not expected to recover to a volume approximating the 1945 level until early 1947. With removal of price controls, the recovery will be accelerated. Beef supplies will increase to more normal levels with increased marketings of cattle, but the increased supply of beef in the near future will result largely from grass-fed cattle. Pork production will also increase as more of the 1946 spring pig crop reaches market weights, although peak marketings may be delayed from one to two months beyond the usual December peak.

Postponement of marketings of both cattle and hogs during the recent period of price uncertainty may result in a total production of meats in 1946 of about 21.6 billion pounds, somewhat below earlier estimates, compared to 22.9 billions in 1945 and the 1935-39 average of 16.2 billions. Output in 1947 may about equal the 1946 production. With reduced military requirements, this will permit an estimated average per capita civilian consumption of meat in 1946 of about 143 pounds, compared to 138 pounds in 1945 and the 1935-39 average of 126 pounds.

Income payments to consumers are expected to continue high well into 1947, sustaining a very intense consumer demand for meats. This level of demand would not have been equaled by the large prospective supply of meat at recent retail ceiling prices or even at the higher ceiling prices scheduled for January and April when subsidies were to have been reduced and then removed with off-setting price increases. "Shortages," although still real, will be less apparent under decontrolled prices; for with prices free to rise, available supplies will go to those who can and are willing to pay high prices. The absence of an effective rationing system was a major weakness of recent attempts to control prices and, along with uncertainty as to the period for which prices would be controlled, was the major factor contributing to the breakdown of price controls on meat.

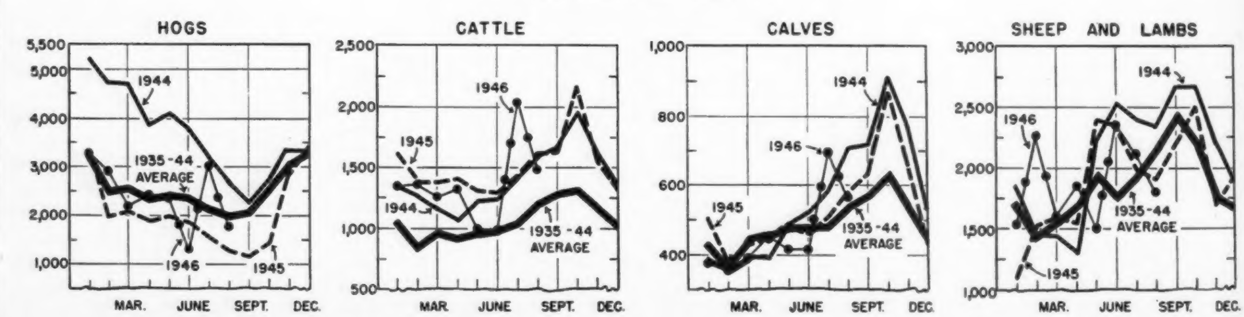
RECENT DEVELOPMENTS

Total meat production during the first five months of 1946 was about equal to production in the corresponding period of 1945. Disposition of cattle for local slaughter at 67 public markets during this period totaled 28 per cent less than the previous year, while calves were down 18 per cent, hogs up 6 per cent, and sheep and lambs down 9 per cent. Slaughter under Federal inspection showed similar changes during this period but indicated a somewhat larger increase in hog slaughter. Although the current volume of livestock slaughtered on farms, by retail butchers, and in non-Federally inspected plants is not known, more than the usual proportion of total slaughter was probably performed in such places.

The large corn crop being harvested will permit feeding hogs from the 1946 spring pig crop to heavier weights before marketing them, thereby increasing the total supply of pork and lard but delaying its appearance at retail counters. Before the 1946 corn crop had matured, it was expected that the

(Continued on Inside Back Cover)

MONTHLY RECEIPTS FOR SLAUGHTER[1] AT 67 PUBLIC MARKETS
1935 - 44, 1944, 1945, AND 1946
(THOUSANDS OF HEAD)



1/ TOTAL RECEIPTS LESS STOCKER AND FEEDER SHIPMENTS
SOURCE: U. S. DEPARTMENT OF AGRICULTURE

Financial Trends in Meat Packing

Industry Emerges from War with Improved Earnings and Working Capital

Fourteen months after the end of the war, the meat packing industry and most of its widely varying component firms are in probably their strongest peacetime financial condition.

In a highly liquid position and with fixed assets much more intensively used than before the war, the industry faces the future with short-run earnings prospects clouded mainly by raw material and labor uncertainties and a longer-run outlook largely dependent upon the course of prices, which were recently decontrolled. Earnings for the 1946 fiscal year, which ended in October for the major packers, promise to exceed 1945 levels; recent unsettled conditions probably will not be sufficient to prevent an over-all high rate of operations for the year.

Total production of meat in 1946 is expected to approximate 21.6 billion pounds dressed meat basis, compared with a 1945 level of 22.9 billion pounds. In the first six months of the 1946 fiscal year the sales of leading packers were running at an annual rate about 7 per cent below the 1945 level. This difference will probably be less for the whole fiscal year 1946 as a result of higher prices after July 1 and resulting greater production and reduced storage holdings consequent on the higher prices. There is strong indication that the dollar sales volume in the fiscal year 1946, marked by periodic meat "famines" and an unusual concentration of sales in particular months, will be at or near the level of the previous year.

For 1946 several factors in addition to sales volume, namely, increased wage levels, subsidies, price rises, and lower taxes, will be of importance in determining the level of net earnings. In recent months, hourly earnings in the meat packing industry averaged over $1.05, as compared with a level of about $.95 for the previous year and $.68 in 1939. Negotiations for further wage increases, including a guaranteed annual wage, are pending currently. Increased labor costs, particularly since February 1946, have been offset to some extent by increased subsidy payments beginning in March 1946 and increases in prices after July 1, 1946. Two earlier factors operating in the same direction were: (1) the change in OPA policy on July 1, 1945, which considered separate profit margins on beef, mutton, and hogs in imposing ceilings, rather than profits calculated on these products taken together, and (2) widened price-cost spreads after V-J Day as a consequence of the decrease in sales of meats to the Government at comparatively low profit margins.

In view of the offsetting tendencies of the above factors, elimination of the excess profits tax and the reduced corporation income tax rates after January 1, 1946, promise to be important in determining the magnitude of increased 1946 net earnings for the meat packing industry.

The upward pressure on costs and prices will probably continue for some time. During such a period, and barring extended work stoppages, the possibilities of drastic shrinkages in working capital would appear remote. In contrast to the heavy accumulation of inventories by meat packers during 1919-1920, current inventories are unusually low. Price uncertainty, however, continues to be the major factor underlying longer-run working capital trends in the meat packing industry. Meat packing inventories, wage trends, and livestock and retail meat prices will bear close watching over the course of the next year.

TABLE 1

COMPOSITE FINANCIAL STATEMENTS, 1944-1945
80 MEAT PACKING COMPANIES
(Amounts in thousands of dollars)

Item	1944		1945	
	Amount	Per Cent	Amount	Per Cent
ASSETS				
Cash	110,597	9.3	112,272	10.1
Marketable Securities	89,886	7.6	88,861	8.0
Receivables	187,510	15.8	170,368	15.3
Inventories	365,102	30.7	311,145	27.9
Other Current	2,868	.2	6,643	.5
Total Current	755,963	63.6	689,289	61.8
Plant and Equipment	371,485	31.2	371,280	33.3
Other Non-Current[1]	61,248	5.2	55,625	4.9
Total Non-Current	432,733	36.4	426,905	38.2
Total	1,188,696	100.0	1,116,194	100.0
LIABILITIES				
Notes Payable	35,357	3.0	35,344	3.2
Accounts Payable	54,221	4.6	51,334	4.6
Taxes (Federal Income)	128,455	10.8	50,452	4.5
Other Current	46,823	3.9	48,174	4.3
Total Current	264,856	22.3	185,304	16.6
Long-Term Liabilities	184,933	15.5	181,238	16.2
Total Debt	449,789	37.8	366,542	32.8
Reserves	45,554	3.8	43,046	3.9
Net Worth[1]	693,353	58.4	706,606	63.3
Total	1,188,696	100.0	1,116,194	100.0
Sales[2]	5,362,449	452.7	4,506,896	405.2
Profit Before Dividends[2]	50,575	4.3	38,285	3.4
Working Capital	491,107	41.3	503,985	45.2

[1]Exclusive of treasury stock and intangible assets.
[2]Includes only 78 companies.

RECENT FINANCIAL DEVELOPMENTS

The meat packing industry, which regularly provides about one-fourth of the nation's manufactured food products, achieved new production and earnings records during the period of hostilities as a direct result of unprecedented civilian and military demands for meat and by-products, accompanied by rising prices. The year 1945 marked the first

This article summarizes a more comprehensive study, entitled *A Financial and Economic Survey of the Meat Packing Industry*, currently being prepared for publication. Conclusions are based largely upon extensive financial-operating data compiled from statements furnished by the Robert Morris Associates (RMA) and from published sources, with the advisory aid of the national research committee of the RMA and the assistance of the Chicago Chapter RMA research committee.

substantial wartime decline in earnings for most meat packers, average earnings falling from 7.3 per cent of net worth in 1944 to 5.4 per cent. This decline from high wartime levels was general among all size groups,[1] but it was particularly sharp for the *large* companies whose wartime financial record, however, was outstanding.

The downturn in earnings in 1945 occurred principally because of a 16 per cent fall in sales volume and a marked increase in operating costs. Since prices remained relatively unchanged from 1944, the explanation for the fall in sales volume lies in the decline of 7 per cent in the physical volume of total meat production and also in the appreciable diversion of meat production from commercial packers to retail butchers and other dealers, lawful and unlawful, not ordinarily considered members of the commercial meat packing industry.

In spite of the 1945 drop in sales and net earnings, the meat packing industry showed a moderate improvement in its working capital position at the end of fiscal 1945 as compared with a year earlier (see accompanying Table 1). Although current assets fell about 15 per cent, current liabilities fell twice as rapidly because of sharply reduced taxes. Within the current asset position, inventories dropped 16 per cent and receivables declined 9 per cent, while combined cash and marketable securities increased 5 per cent. No important variations in these 1944-1945 trends were observed among the various asset size groups of meat packers.

The meat packing industry was fortunate in having relatively few reconversion difficulties. Wartime production was to a large extent identical with peacetime production, thus minimizing inventory disposal problems. Unlike many other important industries, the working capital position of the meat packing industry has not been subject to the strain of prolonged work stoppages.

A number of meat packing firms in 1945 continued their wartime practice of (1) retiring preferred stock and/or funded debt out of earnings, (2) refunding at lower interest rates, and (3) paying relatively conservative dividends. These three factors, however, were of much less importance in conserving working capital than the ones previously mentioned. Current debt to non-trade sources, including banks, rose moderately in all size groups during the year.

In 1939 the assets of the meat packing companies included in the present study were divided evenly between fixed and current. By 1945, however, fixed assets of these same packers accounted for only 38 per cent of total assets. During the war period, fixed assets actually declined 8 per cent. The meat packing industry had excess capacity before the war, much of it capable of increasing output without rising unit costs. Available information indicates that its capacity was not overtaxed during the period of hostilities. Industry leaders feel that capacity will remain adequate for some time, although provision, of course, must be made for replacement and modernization.

Within the current asset section, some of the larger companies have taken steps to improve the handling of their inventories. The adoption of the last-in-first-out (LIFO) method of inventory valuation by a number of them in 1941 will lessen but not eliminate the severity of inventory fluctuation because of price changes. Under this method, which is applied only to a portion of inventories by most companies, inventory on hand is valued at acquisition prices and any units removed from inventory are considered to be those most recently purchased. In other words, for costing purposes, goods sold reflect the current price situation rather than historical prices.

Judging from figures on cold storage holdings of meat, inventory accumulation by meat packers in the early part of 1946 was less than the average of recent years. The selling wave which followed the temporary ending of price controls on July 1, 1946, drastically reduced cold storage holdings to 234 million pounds as of October 1, less than 50 per cent of the previous year's level and an all-time low for that date. A number of factors, including uncertainty over the level of prices and buyer pressure, make it difficult to predict future inventory levels.

WARTIME EARNINGS PATTERNS

Prior to the war, meat packing earnings[2] were smaller and less volatile than the average of all manufacturing industries. Under the influence of the war and unprecedented Government expenditures, peak wartime earnings in meat packing increased 55 per cent and all manufacturing earnings about 20 per cent over their respective 1940 levels. In spite of a sharper upward wartime trend, however, the absolute level of meat packing earnings remained below that of all manufacturing. The 1940-44 average for the latter was more than 10 per cent as compared with 7.5 per cent for the 28 meat packing companies in the 1939-45 sample of the present study.

Within meat packing, the *large* companies exhibited the highest average war and prewar returns of companies with assets over a million dollars. The *medium* companies led the

[1]The size of business classes and two samples used in this study are:

Description	1941 Asset Size (In millions of dollars)	Number of Companies 1939-45	Number of Companies 1944-45
Very Large	35 and over	5	5
Large	5 — 34.9	4	8
Medium	1 — 4.9	12	25
Small	Under 1	7	42
	Total	28	80

Except for *small* packers, the sample is sufficiently complete to warrant confidence in the representativeness of the results. Unless otherwise stated, the discussion excludes the *small* packers.

[2]Earnings are net after taxes as a percentage of net worth throughout this study unless otherwise indicated.

TABLE 2
COMPARISON OF MEAT PACKING EARNINGS AS A PER CENT OF NET WORTH, BEFORE AND AFTER TAXES, BY SIZE OF COMPANY, 1939-1945

Year	All Companies[1]		Large		Very Large	
	Before Taxes	After Taxes	Before Taxes	After Taxes	Before Taxes	After Taxes
1939	5.9	4.8	18.5	14.5	5.4	4.3
1940	7.0	5.5	16.4	13.0	6.5	5.2
1941	11.4	8.4	17.6	13.5	11.1	8.2
1942	16.1	8.0	22.1	12.6	15.6	7.6
1943	20.7	8.3	28.3	12.5	20.2	8.0
1944	25.0	7.3	30.7	12.0	25.0	7.0
1945	10.4	5.5	13.1	7.6	9.9	5.3

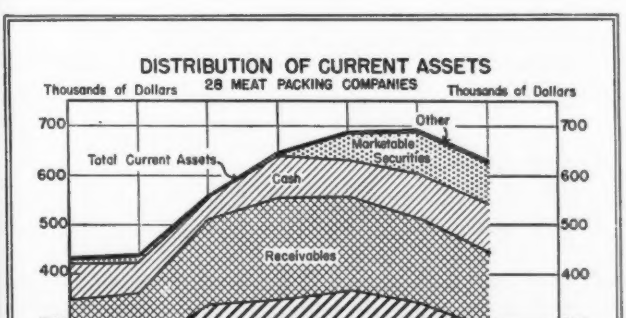
[1]Includes seven *small* and twelve *medium* companies.

very large during the war in earnings in relation to net worth, whereas in the prewar period this order was reversed. The reasons why the *large* packers have shown a consistently better average earnings record than the *very large* companies are not entirely clear, but certain explanations suggest themselves: (1) somewhat greater tendency to emphasize branded pork products, especially when these are relatively more profitable; (2) noticeably faster inventory turnover; (3) more geographically centralized production-distribution operations, and (4) much lower relative fixed interest charges. There is some possibility that the economic advantages of large-scale production are limited in this industry.

In addition to higher average earnings, these *large* firms have evidenced much smaller fluctuations in earnings than the *very large* and *medium* size companies. During 1939-44, firms in the *large* company sample ranged narrowly downward from 14.5 per cent to 12 per cent. In 1945, however, when the supply of hogs marketed was sharply reduced, *large* firm earnings followed the industry trend and fell abruptly to 7.6 per cent. Earnings of the *very large* packers were reasonably low, 4.3 per cent, in 1939, but climbed to a 1941-43 plateau of slightly over 8 per cent, and thereafter declined to 5.5 per cent in 1945.

The effect of income and excess profits taxes on earnings is indicated by the wartime increases in the spread between earnings before and after taxes. This spread, which averaged less than 3 per cent until 1942, increased to more than 8 per cent in 1942, reached 18 per cent in 1944, and fell to 5 per cent in 1945. Between 1942 and 1944 the spread was on the average larger than net earnings after taxes (see Table 2).

Available data provide no conclusive evidence that any particular meat product has yielded consistently higher earnings or better financial condition than other products, individually or in combination. An important limitation in appraising earnings variations by type of product occurs because most of the *medium*, virtually all of the *large*, and all of the *very large* packers engage in general operations covering more than one type of meat. As a result, financial data on firms by type of product are necessarily limited to *small* and *medium* size establishments which specialize in pork, beef, or lamb and mutton.



Between 1929 and 1940 the slaughterers with net worth under one million dollars reporting to the Packers and Stockyards Division averaged net earnings after taxes of 3.3 per cent on net worth. Beef packers had the highest average, 5.2 per cent; and mutton packers had the lowest, negative 2.9 per cent; with beef and mutton, general, and pork packers in descending order after beef packers.

The earnings rank among these types of *small* packers changed during the depressed early 1930's and again during the subsequent recovery period. Throughout the 1929-40 period as a whole (1) the highest net earnings were achieved in four years each by the beef, mutton, and beef and mutton packers, and (2) mutton packers had the greatest, and beef and general packers the least, fluctuations in earnings.

Unusual interest seems to center on pork packing. During 1929-40, except for mutton packers, pork packers with net worth under one million dollars showed wider earnings fluctuations than any other type of packer. In addition, the low pork prices had a depressing effect on pork packers' earnings levels. As a result of the rapidly increasing relative hog population and prices in the immediate prewar period, *small* pork packer earnings expanded rapidly in 1939 and 1940. Moreover, in 1940 they exceeded the average for *small* packers as a group for the first time in the 1929-40 period and were second only to *small* mutton packers.

Information recently released by the Packers and Stockyards Division suggests that pork packer earnings remained about average until 1945 when hog production was sharply reduced. These trends, common to *small* and *medium* size firms, indicate the dependence of pork earnings upon physical volume and stable or rising prices.

A comparison of other aspects of the financial statements of pork and general packers in the 1944-45 sample discloses no consistent differences. This may be due to the particular years and to the few pork packer statements available.

OTHER WARTIME FINANCIAL TRENDS

A detailed analysis of the assets of meat packing establishments reveals that in 1939-40 current assets, and inventories in particular, comprised a higher, and fixed assets a lower, proportion of total assets than average for all manufacturing firms in the nation. In addition, immediate prewar financial statements of meat packers were marked by a number of other distinguishing features, namely, relatively greater short-term and long-term borrowings, consequent lower equities, and less investment in marketable and other securities. Although comparatively large inventories were normally on hand, these regularly turned over during 1939-40 at a rate varying from two and one-half weeks for the *small* firms, to five weeks for the *very large*.

The financial condition of meat packing improved markedly during the war, but gains were below the average of all manufacturing. Including munitions, all manufactures had increased sales of 128 per cent between 1940 and 1943 compared with 95 per cent for meat packing. The 45 per cent increase in total assets of all manufactures was almost double that of meat packing and occurred despite smaller

gains in aggregate earnings and an actual decline in funded debt. Meat packing also lagged relatively in wartime working capital growth.

The fundamental factor underlying the greatly improved wartime financial position of the meat packing industry was, of course, the more than doubling of the sales volume between 1939 and 1944. The greatest single year of increase was 1942, a year characterized by expanding physical volume and sharp price rises. After price control was broadened late in 1942, the smaller increases in sales which took place in 1943 and 1944 resulted largely from continued increases in physical volume.

In spite of substantially increased wartime labor and material costs and a more than fifteen-fold rise in income and excess profits taxes, the sharply expanded sales volume in meat packing resulted in an increase in aggregate earnings of over 67 per cent between 1939 and 1944. A lag in dividend payments behind earnings, together with a marked expansion in current liabilities, in turn resulted in an increase of slightly more than 25 per cent in total meat packing assets.

The wartime increase in total assets was limited to current assets, fixed assets actually falling slightly during 1939-44. Not only was the current asset position of the meat packing industry greatly strengthened during the war, but within the current asset category there was a marked relative shift. Cash and marketable securities doubled while receivables and inventories increased 50 per cent (see accompanying chart). In other words, the meat packing industry became more liquid.

The major factor in this liquidity trend was faster turnover of inventories and receivables. At the outbreak of the war, 17 and 37 days' sales on the average were tied up in receivables and inventories, respectively. These figures rose slightly in the immediate prewar period, but thereafter fell steadily to 13 and 25 days by the end of 1944, declines in each case of approximately 30 per cent. In 1945 there was a slight upward trend.

Every dollar tied up in receivables and inventories represented approximately 33 cents additional sales in 1944 compared with several years earlier. This condition is attributable primarily to increased sales to the Government with assured payment, subsidy payments, greater liquidity of the non-Governmental buyers of meat (consequent on rising profits), Government limitations on inventory holdings, and relative lack of incentive to speculate in building up inventories under wartime price controls. Wartime changes in current assets for each size group paralleled those indicated for the industry as a whole. The *large* companies, which experienced the greatest rise in current assets, also showed the most appreciable gain in cash, in inventories, and the sharpest reduction in days' sales tied up in receivables. *Medium* size companies experienced the greatest expansion in inventories. These two groups also had significantly greater increases in working capital and current liabilities than the *very large* companies.

The 1939-44 over-all decline in fixed assets reflects the continued depreciation of prewar facilities, acknowledged to have included substantial unused capacity, and the little publicly or privately financed wartime additions to meat packing plant and equipment. The only meat packing group to show an increase in net fixed assets during the period was the *large* companies which added 32 per cent to their 1939 manufacturing facilities, attributable chiefly to the acquisition of other concerns. It follows, therefore, that for the meat packing industry as a whole, fixed assets as well as total and current assets were used much more intensively during the war than in prior years (see Table 3).

In the early stages of the war the meat packing industry increased substantially its already greater-than-average reliance on non-trade sources for short-term funds. Between 1939 and 1942 the companies studied increased their notes payable from 25 to 93 million dollars, or over two and one-half times. It appears that the greatest portion of this increased borrowing was from banks, largely prompted by the sharply increased inventories and receivables in the pre-price control period of the war. In 1943, large earnings made possible a sharp cut in notes payable to 51 million dollars, and by 1944, when inventories were also declining, borrowings were back to their 1939 level. In 1945, notes payable increased 13 per cent, bringing the sample total to 29 million dollars.

Long-term debt has been a factor of relatively small importance in the meat packing industry in recent years. During the war this type of debt increased only 10 per cent, with the bulk of the increase being concentrated in the *large* companies. Packers who had funded debt existing before the war have taken advantage of favorable wartime money market conditions to refund their debt at lower rates.

As would be expected during the wartime period of rising prices and high earnings, bankruptcies in the meat packing industry fell off sharply from 10 in 1941 to none in 1944-45. according to Dun and Bradstreet.

TABLE 3

MEAT PACKING SALES PER DOLLAR OF FIXED, CURRENT, AND TOTAL ASSETS, 1939 AND 1944

Items	1939	1944	Percentage Change
Fixed Assets			
Medium[1]	$ 5.14	$12.81	149.2
Large[2]	10.05	19.20	91.0
Very large[3]	5.11	11.62	127.4
All[4]	5.32	12.12	127.7
Current Assets			
Medium	7.47	9.43	26.2
Large	8.04	9.44	17.4
Very Large	5.12	6.75	31.8
All	5.35	7.03	31.4
Total Assets			
Medium	3.04	5.43	78.6
Large	4.47	6.33	41.6
Very Large	2.56	4.27	66.8
All	2.70	4.50	66.7

[1] 1941 assets $1-5 million.
[2] 1941 assets $5-35 million.
[3] 1941 assets $35 million and over.
[4] Includes seven *small* companies.

Wisconsin State Finance — II

Interrelations of State and Local Finance

The magnitude of war and postwar demands on the taxpayer by the Federal Government has been such as to divert attention from contemporaneous increases in the productivity of revitalized state revenue systems, and the recent efforts of local governments, especially those in metropolitan areas, to attain greater fiscal independence and stature through the broadening of their tax bases. These latter developments in Wisconsin and elsewhere may, in fact, be of no greater significance than is implied in the casual attention given them by citizens and taxpayers generally. If so, a new role is forecast for the Federal Government, for apart from periods of war, preparation for war, and the immediate aftermath, state and local governments have in the magnitude of their taxation and expenditure been of equal or much greater significance than the Federal Government. The traditional balance among these levels of government can be upset by enlarging the scope and operation of government as a whole and confining such expansion to the Federal Government, or it may occur by the direct or indirect transference of functions from the states and localities without any material change in the total of governmental activities.

For example, the cost of American participation in postwar world affairs may be unprecedented budgets for the military services and foreign commitments far in excess of pre-World War II experience. Or the Federal Government may approach the task of maintaining "full employment" by assuming expenditures ample to maintain a high level of income payments. Either of these programs could result in expenditure that would make the finances of state and local governments of relative unimportance. On a more modest scale, Federal concern with social security, common and high school education, or local public works also can alter the balance; thus, the adoption of Federally financed and administered programs of health, retirement, unemployment, and disability insurance would in the long run drastically reduce, if not eliminate, a large state and local concern with institutional care or pension aids for the handicapped and the indigent.

An alternative to the outright transference of functions, or the gradual replacement of one type of program by another, lies in the cooperative arrangements for sharing revenues or collecting them at one level of government, and by means of qualified grants, disbursing them at another level. These intergovernmental schemes for furnishing public services may resemble the shotgun wedding of the states to unemployment compensation or the handsome dowers from the Federal Government to states and localities for participation in pensions to dependent children, the aged, and blind. In any event, the ensuing attachments have made such devices a major concern of public finance, for if tax revenues can be collected by one level of government and efficiently disbursed by another, many pressing problems of state and local government operation will have been solved.

RELATIONS BETWEEN TAXES AND EXPENDITURES

It is commonly thought impractical to permit any government to disassociate itself from the consequences of increased taxation that an enlarged expenditure program involves. One of the long-revered automatic safeguards of a democratic system is the proximate relationship maintained between expenditures and taxes. In the short run, because of borrowing, the correspondence is often lacking; it is obscured by reliance on indirect and hidden taxes which conceal the tax burden for particular individuals or groups. It becomes of nominal significance as reliance on shared taxes or grants-in-aid is increased, particularly when the grantor government derives its revenues from a larger area and from different economic groups than enjoy the benefits of expenditure by the grantee governments. To the extent that citizens as taxpayers are impelled by tax burdens to exercise control over the activities of their governments, the cost of government and the payment of taxes to meet such costs must not be too widely disassociated.

There are several reasons why this principle cannot be rigidly followed, however. Economy in tax administration makes it desirable to have most types of taxes collected by the states or Federal Government. The vastly greater credit resources of these governments can also, given the proper fiscal arrangements, be of material aid to local units in times of economic depression. Local units which are best qualified to perform certain functions may not be in a position to levy taxes sufficient to finance these expenditures. They may be limited, legally or economically, in the use of the more desirable tax sources and in their borrowing capacity. The advantages of a more equitable and less burdensome tax structure may, therefore, outweigh the disadvantages of separating the revenue raising and spending functions. Shared taxes and grants-in-aid have gained in importance as devices for overcoming some of the difficulties. For determining their proper use it is necessary to strike a balance between the possible adverse effects of divorcing the taxing and spending functions and the benefits derived from a more effective use and administration of tax resources.

Grants and sharing may on occasion engender an uneconomic apportioning of public funds. Neither an individual nor a government, given unlimited responsibilty, is likely to spend matching grants which involve ten- or fifty-cent dollars of local tax money with the same caution as 100-cent dollars. Unrestricted sharing is conducive to larger expenditures by the grantees than is necessary or desirable. Rigidly controlled grants, on the other hand, deprive the local governments of any independence in judgment in apportioning the funds they only nominally disburse and thus

remove the major justification for retaining even the form of local government. One solution of the problem, therefore, is to allow a wide range of local autonomy in the expenditure of grants or shared taxes and at the same time to make the grantee government's matching contribution in the form of local taxes sufficiently onerous to insure the maximum of economy in the expenditure of the aids. To attain this goal the states and localities must have substantial independent means of support with some flexibility so that the consequences of their expenditure policies may be felt by their taxpayers.

The states generally have found means of adequate self-support by the reformation of their revenue systems—initially to finance highways through vehicle licenses and fuel taxes, and later to finance an expanding program of governmental service through the adoption of liquor and tobacco excises, and sales and income taxes. Indeed, most states have gone even further and virtually abandoned their use of the earlier dominant source of revenue—the property tax—surrendering whatever claim they have on a share of this revenue to the localities.

An adequate revenue basis for localities, on the other hand, has not been found. The effects of wartime increase in the price level, which automatically enhanced the yield of many state taxes, were almost without effect on the revenues of the localities. At best, the higher levels of income and economic activity enabled them to liquidate a large volume of property tax delinquency which had accrued during the 1930's. At the other extreme many localities were compelled to incur substantially increased costs due to wartime population shifts. Contrary to the experience of the states, most of the localities survived the war with little material change in their financial status. The decline in their indebtedness of some 15 per cent is more than offset by an accumulation of deferred maintenance on streets and alleys, and sewerage and water systems. Currently, there is a rapidly growing trend for the adoption of municipal sales taxes, utility excises, and net income taxes among the cities of the country. Prewar experience with these sources of revenue by some of the larger cities, notably New York and Philadelphia, have been sufficiently satisfactory to stimulate their adoption elsewhere.

TAX SHARING

The integration of the State and local finance systems in Wisconsin is of such a character as to make it unlikely that Wisconsin localities will exploit the new tax fields. By historical accident, as a by-product of tax reform and by virtue of a long-standing preference for maintaining the stature of local government, the State and local revenue systems in Wisconsin have developed as one rather than having followed the more common trend toward separation of state and local tax sources. As the State adopted new taxes, it made the localities participants in the proceeds. Moreover, it has never fully surrendered an interest in the property tax, the major source of local support.

Historically, as is well known, the property tax was nearly the sole source of revenue for both State and local units and was thus a common vehicle for carrying the costs of local and State government. From early statehood there has been special emphasis by the State on certain aspects of the property tax; the long-run effect of State assessment and taxation of railroads and public utilities has even more closely identified State and local revenue interests. The State gross receipts tax on railroads was abandoned in 1905 and property taxation at the average State rate was adopted; a small share of the proceeds went to localities. Thereafter, other utilities were brought under the same system but with much larger local sharing of the tax revenues produced.

Since 1913 the motor vehicle license has been a State-local revenue; from 1917 to 1926 the localities retained 25 per cent of the proceeds. The sharing provisions were discontinued in 1926 but restored in 1932 when a portion of the vehicle license replaced the personal property tax on motor vehicles. The income tax enacted in 1911 was viewed as a partial replacement for the personal property tax and treated as a joint source of revenue of State and local governments. It has continued so down to the present time, with changes in proportions taken by the State and localities. Alcoholic beverage taxes are also shared between the State

FOOTNOTES TO TABLE ON OPPOSITE PAGE

[1]Tax receipts are on a cash basis in all instances except for the local units' shares of locally-collected telephone, inheritance, and prior to 1934, normal income taxes. These local shares are Tax Commission estimates computed from the State Treasurer's receipts of amounts due the State. All tax receipts have been reduced by the amount of tax refunds.

[2]Include the normal individual and corporation income taxes which are shared with local units, the teachers' retirement surtax shared with Milwaukee County, and the emergency relief surtaxes of 1932, 1933, and 1935, the old age pension surtax, and the dividend tax, which are entirely for State purposes; also include State and local shares of the normal inheritance, gift, estate, and emergency transfer taxes.

[3]Consist of taxes on steam railways; street railways; light, heat and power companies; conservation and regulation companies; telephone companies; and the rural electric cooperative associations. The State portion includes the entire receipts from sleeping cars, freight lines, express companies, and telegraph companies; these taxes on utilities are not shared with localities.

[4]Includes the malt beverage and liquor taxes; the former is entirely for State purposes and the latter for local purposes except for the cost of administration.

[5]The local units' share of motor vehicle license taxes consists of 25 per cent of total net receipts during 1920-25; beginning in 1932, the local "share" is the highway privilege tax paid the local units in lieu of the property tax on automobiles formerly collected by the localities.

[6]Include insurance company taxes, forest crop, coal and grain, and miscellaneous occupational taxes.

[7]Include motor fuel, motor transportation and motor carrier taxes, the tobacco tax, and the taxes on oleomargarine and chain stores. Exclude payroll taxes for unemployment compensation.

[8]Subject to revision.

[9]Include all aids for common schools (except the apportionment of interest earned by the school fund), rural schools, high schools, vocational schools, schools for the physically handicapped, and related items.

[10]Include aids for county tuberculosis sanatoria and county insane asylums, social security, and unemployment relief. (Aids through 1936 for county tuberculosis sanatoria and county insane asylums consist of payments by the State for the total cost of State patients and the State's portion of the cost of the county patients. These data were compiled from the Reports of the Board of Control; since 1937, totals appearing in *Taxes and State Aids* are used.)

[11]Highway aids are estimated from the *Wisconsin State Budget;* these include aid for construction on the State trunk system through 1925, redemption of bonds issued by counties for State trunk highway construction beginning in 1926, maintenance of State trunk highways through 1931, improvements of county trunk highways and local roads and streets, and miscellaneous related projects.

[12]Include aids to county fairs and county forests.

[13]Consist of aids for specific activities, principally highway activities (including highway construction under the emergency programs), the social security program, and vocational education.

[14]Include Federal aid for vocational education and agricultural extension reapportioned by the State to local units; in 1933 and thereafter, also include direct relief and social security aids.

*Not available.

SOURCES: Data based on the annual series *Taxes and State Aids*, Wisconsin Department of Taxation (Wisconsin Tax Commission); in addition, the *Biennial Report of the Treasurer of the State of Wisconsin*, the *Biennial Report of the Secretary of State of the State of Wisconsin*, the *Wisconsin State Budget* (biennial), and *The Report of State of Wisconsin Board of Control*, now a part of the Department of Welfare (biennial through 1936), were used for adjustments of some items from an allotment to a cash basis net of refunds and to make the series consistent throughout the period.

WISCONSIN STATE TAXES SHARED, FEDERAL AID, AND STATE AID TO LOCALITIES 1920-45

(In millions of dollars)

TAXES SHARED[1]

State and Local Shares of State Taxes

Year	Personal and Corporation Net Income and Inheritance[2]		Railroad and Public Utility[3]		Alcoholic Beverage[4]		Motor Vehicle License[5]		Other Shared Taxes[6]		State Taxes Not Shared[7]	Total	
	State	Local	State	Local	State	Local	State	Local	State	Local		State	Local
1920	10.57	5.77	6.36	1.41	....	....	2.36	.75	.98	.41	14.06	34.33	8.34
1921	3.09	4.32	7.29	1.80	....	....	2.78	.88	1.07	.44	7.75	21.98	7.44
1922	4.84	6.84	7.62	2.03	....	....	3.11	.98	1.15	.41	7.74	24.46	10.26
1923	4.05	4.16	7.65	2.32	....	....	3.63	1.16	1.28	.42	6.11	22.72	8.06
1924	6.21	6.48	7.84	2.68	....	....	5.10	1.62	1.73	.40	5.22	26.10	11.18
1925	5.33	7.04	7.91	3.08	....	....	5.96	1.86	1.61	.46	5.74	26.55	12.44
1926	8.28	7.73	7.51	3.37	....	....	8.91	....	1.74	.45	4.86	31.30	11.55
1927	10.85	10.37	7.19	3.42	....	....	9.74	....	1.87	.47	5.48	35.13	14.26
1928	4.74	1.68	7.63	4.39	....	....	10.63	....	1.96	.46	8.69	33.65	6.53
1929	10.79	10.04	8.04	5.04	....	....	11.65	....	2.07	.52	9.41	41.96	15.60
1930	12.26	11.79	8.51	6.45	....	....	12.02	....	2.14	.52	12.38	47.31	18.76
1931	12.06	11.57	8.51	7.00	....	....	11.41	....	1.81	.45	14.35	48.14	19.02
1932	11.51	9.75	7.98	7.36	....	....	7.41	3.54	2.17	.42	16.80	45.87	21.07
1933	13.72	7.61	7.22	7.42	.18	....	6.66	2.80	1.99	.36	14.83	44.60	18.19
1934	9.44	2.55	6.58	6.75	2.37	....	6.45	3.58	1.81	.31	17.35	44.00	13.19
1935	8.58	4.01	7.25	7.01	2.51	1.53	6.58	3.58	1.76	.33	16.94	43.62	16.46
1936	10.67	5.78	7.87	7.16	2.76	2.47	7.91	3.58	1.91	.37	18.08	49.20	19.36
1937	14.71	8.10	7.22	7.25	2.87	3.45	9.20	3.60	2.08	.34	20.54	56.62	22.74
1938	16.85	7.80	6.74	7.59	2.27	3.70	9.73	3.66	1.84	.40	21.83	59.26	23.15
1939	10.42	5.82	6.41	8.14	2.36	3.15	9.48	3.70	1.77	.37	22.10	52.54	21.18
1940	14.31	7.07	6.25	8.54	2.72	3.63	9.45	3.70	1.80	.39	25.74	60.27	23.33
1941	18.14	9.26	6.95	8.37	2.73	3.46	10.57	3.73	1.90	.38	27.98	68.27	25.20
1942	25.70	15.84	6.95	8.37	2.74	3.98	10.46	3.78	2.25	.43	29.84	77.94	32.40
1943	30.35	23.37	6.46	8.95	1.84	4.57	9.34	3.83	2.36	.45	24.81	75.16	41.17
1944	33.92	27.74	6.31	8.44	3.49	2.89	9.23	3.80	2.28	.44	23.29	78.52	43.31
1945[8]	31.18	25.14	6.93	8.07	4.44	3.03	9.22	3.80	2.38	.48	23.49	77.64	40.52

GRANTS-IN-AID—STATE AND FEDERAL / SUMMARY

Year	Grants-in-Aid from State Taxes					Federal Aid		Summary			
	Education[9]	Welfare[10]	Highway[11]	Other Aids[12]	Total Aids	To State[13]	Redistributed to Localities[14]	Total State Taxes	Total State Taxes and Federal Aid	Aid to Localities: From State Sources	Aid to Localities: From State and Federal Sources
1920	3.90	.93	1.94	.16	6.93	1.40	.09	42.67	44.07	15.27	15.36
1921	4.12	.92	2.56	.19	7.79	3.40	.10	29.42	32.82	15.23	15.33
1922	4.25	.96	3.08	.25	8.54	5.00	.16	34.72	39.72	18.80	18.96
1923	4.42	1.02	2.95	.34	8.73	2.90	.15	30.78	33.68	16.79	16.94
1924	4.54	1.07	3.59	.30	9.50	3.10	.21	37.28	40.38	20.68	20.89
1925	4.53	1.26	4.18	.32	10.29	2.10	.24	38.99	41.09	22.73	22.97
1926	4.87	1.22	6.15	.30	12.54	2.60	.26	42.85	45.45	24.09	24.35
1927	5.22	1.16	10.23	.29	16.90	3.40	.26	49.39	52.79	31.16	31.42
1928	3.89	1.37	11.86	.28	17.40	5.20	.27	40.18	45.38	23.93	24.20
1929	8.54	1.44	8.60	.32	18.90	5.30	.27	57.56	62.86	34.50	34.77
1930	7.49	1.50	9.94	.32	19.25	7.50	.27	66.07	73.57	38.01	38.37
1931	7.67	1.61	10.47	.33	20.08	10.10	.30	67.16	77.26	39.10	39.40
1932	7.72	4.86	10.48	.34	23.40	9.30	.32	66.94	76.24	44.47	44.79
1933	7.06	3.50	10.38	.33	21.27	8.40	1.42	62.79	71.19	39.46	40.88
1934	5.94	2.62	10.45	.22	19.23	27.65	16.24	57.19	84.84	32.42	48.66
1935	5.98	2.73	10.13	.24	19.08	53.16	45.22	60.08	113.24	35.54	80.76
1936	6.57	6.46	12.67	.34	26.04	33.36	15.49	68.56	101.92	45.40	60.89
1937	6.62	7.09	12.66	.39	26.76	19.54	6.19	79.36	98.90	49.50	55.69
1938	7.58	8.32	12.65	.43	28.98	17.33	6.31	82.41	99.74	52.13	58.44
1939	8.05	9.00	11.63	.44	29.12	16.13	7.42	73.72	89.85	50.30	57.72
1940	8.20	9.70	14.93	.44	33.36	16.25	10.32	83.60	99.85	56.59	66.91
1941	8.04	10.13	15.03	.48	33.68	16.04	10.31	93.47	109.51	58.88	69.19
1942	8.17	9.79	14.40	.48	32.84	18.89	10.59	110.34	129.23	65.24	75.83
1943	8.00	9.26	13.78	.50	31.54	18.23	10.29	116.33	134.56	72.71	83.00
1944	9.65	8.79	12.82	.49	31.75	17.42	10.16	121.83	139.25	75.06	85.22
1945[8]	9.58	8.68	12.38	.50	31.14	*	*	118.16	*	71.69	*

Note: See opposite page for footnotes.

and localities. With the exception of the motor fuel tax and unemployment compensation payroll taxes, every major element in the Wisconsin revenue system may be regarded as both a State and a local revenue.

The use to which locally-shared tax receipts can be put is unrestricted except for the limitation implicit in the functions delegated to the unit that shares in the receipt. Thus, the income tax is shared by counties, cities, and villages and towns—the alcoholic beverage taxes with the cities, and the levy on public utilities by the counties and the cities. As early as the decade of the 1920's, local shares of State taxes averaged a little over 10 million dollars annually, or 25 per cent of the total State taxes in these years. The personal and corporate net income taxes were the largest items in this total, approximating 60 per cent in most years except in 1928 when income tax receipts were abnormally low due to a statutory change in the time of collection.

In the decade of the 1930's, approximately 20 million dollars was available annually to the localities from shared taxes. In these years of depression the portion contributed by income taxes was much smaller than in the previous decade due in part to the fact that the State's share of the normal income taxes was increased from 10 to 40 per cent in 1925, but in larger measure, the decrease was due to the fact that depressed business conditions drastically affected the yield of the normal income tax. In 1934, for example, of total shared taxes to localities only 20 per cent was from the income tax. During the 1930's the shared portions of the public utility taxes were relatively stable, having grown rapidly during the 1920's due to the expansion of investment in utility property and the incorporation into State assessment of additional types of utilities. Sharing of the motor vehicle licenses, temporarily discontinued in 1926, was restored in 1932; in 1935 the tax on distilled spirits was earmarked for localities.

The 1940's marked another period of rapid growth in the yield of local shares from State taxes due largely to the phenomenal increase in productivity of the income tax. Beginning in fiscal 1942, local shares increased to a level of about 40 million dollars annually. In these years the proportion of local shares to total collections of State taxes, excluding the unemployment compensation payroll taxes, was 34 per cent.

It will be noted from the accompanying table that the local shares of State taxes have shown greater fluctuations than the State taxes retained for State use. Yields were more variable throughout the 1920's, and the severe depression in economic activity of the early 1930's also entailed a very sharp contraction in local shares of State taxes. The State tax income was stabilized to a large degree by the levying of additional emergency income tax rates for State purposes only. Local shares of income taxes have also been less stable since 1941, increasing more sharply than the State shares due to the dropping of the emergency surtaxes. The experience of these 25 years indicates a consistent long-run policy on the part of the State, as it has revamped and extended its revenue system of taking serious account of the financial needs of local governments. The greater instability of local shares evident in the worst depression years in the 1930's and the years of World War II does indicate a natural disposition on the part of the State to give first thought to its own financial requirements in time of great financial stress. No doubt localities had as urgent need of tax revenues as the State in the early 1930's, but the emergency surtaxes by which the State buttressed its finances were exclusively reserved for State purposes. On the other hand, in the flush yielding years of the war, the State did not require that localities share the loss in revenue resulting from the reduction in the rate of the income tax. Over the long run, therefore, it would seem that the State is fully aware of the fiscal problems and revenue requirements of its local governments and on the whole has been successful in minimizing their financial difficulties.

STATE GRANTS-IN-AID

In addition to direct sharing of its taxes, the State of Wisconsin has made substantial grants-in-aid to the local units from its own revenues to stimulate particular functions and to underwrite the maintenance of specified minimum standards of governmental service. Such grants have been far more stable from year to year than the revenues from tax sharing. From 1920 through 1926 the annual total of such grants averaged nearly 8 million dollars, from 1927 through 1935 about 20 million dollars, and since the advent of the social security program in 1936, about 30 million dollars. Added to the shared taxes, these grants have for the past ten years been amounting to between 60 and 65 per cent of State tax revenues. Taking into account Federal aid to the State and its redistribution to localities, and assuming that all Federal highway aid is retained for State expenditure, does not materially alter the relationship.

As may be seen from the accompanying table, the largest aids from State sources are for highways in all except the early years of the period. Educational aids have been an important part of the program although their relative significance has decreased as the emphasis shifted to welfare activities in the latter 1930's. Grants-in-aid in Wisconsin, as elsewhere, are accompanied by conditions and restrictions which limit their contribution to relieving the fiscal difficulties of local governments. In some instances the matching requirements for grants actually worsen local finances by stimulating the localities to meet these requirements at the expense of other uniquely local functions.

Wisconsin is one of three or four states that has approached the problem of local finance by a comprehensive program of State tax-sharing and grants-in-aid. In so doing, the State probably has made it practicable for its communities to perform their traditional functions without turning to local sales and income taxes. The present system has many imperfections, it is true. For example, the share of highway-user taxes for urban roads and streets is inadequate, and many provisions of the present aid and sharing system are unnecessarily complicated and obsolete. In broad outlines, however, the precedents for action have been established and the techniques for meeting the problem have been tested; these are major steps toward a better and more complete solution.

THE MEAT SITUATION

(Continued from Inside Front Cover)

spring pig crop would be marketed earlier than usual and at relatively light weights due to the tight feed situation. Had this occurred, there would be more pork now, less later.

The current fall pig crop probably is 15 to 20 per cent smaller than the 1945 crop and will result in curtailed pork supplies during the coming spring and summer. The spring pig crop in 1947 may be larger than this year. This would augment pork supplies in late 1947 and early 1948.

The demand for stocker and feeder cattle is strong, reflecting the record high level of production of feed crops during 1946 and an optimistic view of prospective cattle prices in 1947. There has been a large movement of feeder cattle from the range into feeding areas. Shipments from four leading markets during the July to September period this year, compared to 1945, showed a decrease in the number of heavy feeder steers but about a 20 per cent increase in other weight classes. Receipts from all sources in eleven Corn Belt states during this period were 36 per cent larger than in 1945. Cattle feeders have tended to focus attention on the light weight feeder cattle which require a longer period to fatten and can be adapted to a more flexible feeding and marketing program. The feeding of light cattle, together with the fact that relatively small numbers of cattle were actually on grain feed in the Corn Belt the first of August, suggests that supplies of high quality beef will continue small for several months. It was generally conceded that many of the cattle moving into feeding areas were not scheduled for slaughter until ceiling prices had terminated. Supplies of high quality beef may be relatively large in the spring and summer of 1947 as a result of increased feeding operations this winter and spring.

PRICE UNCERTAINTY DISTORTS OUTPUT

Debate over the extension of price control legislation extended through May and June with final action taken only after expiration of the earlier law. During this period it appeared that if freed of price control, livestock prices would rise more than enough to compensate for the loss of subsidy payments. With this price outlook, and aided by prospects for record crops of livestock feeds, marketings of livestock in June dwindled to a trickle. Disposition of cattle for local slaughter at 67 public markets was down 60 per cent from June 1945, while hog volume was down 38 per cent. Calves, sheep, and lambs showed lesser reductions. Slaughter of cattle under Federal inspection dropped to about one-third of the preceding June, while slaughter of hogs dropped to about two-thirds of the June 1945 level.

The new price control law prohibited ceiling prices on meats and livestock during July and August and provided a procedure for recontrol should it be deemed desirable to take such action after the "price holiday." Livestock prices rose sharply with decontrol. The average price of Choice butcher hogs sold at Chicago for the week ended August 10 was $23.09 compared to $14.85 under June ceilings. Good grade slaughter steers averaged $3.29 per 100 pounds higher than for the last week of June. Lower grades of cattle increased less, while Choice and Prime steers averaged $6.16 higher.

The rising prices promptly brought to market animals which had been held in abeyance during the price uncertainty in June. The probability that such prices would prevail only during the period for which price controls were specifically prohibited caused farmers to reconsider their production plans, with many marketing livestock which would have been fed to heavier weights under a more normal market price outlook. This resulted in unseasonally large marketings in July and August.

Disposition of cattle and hogs for local slaughter at 67 public markets in July was 30 and 59 per cent, respectively, above the preceding July. August marketings were large although below the July rate. Slaughter under Federal inspection for the eight-week period, July 6 to August 31, 1946, was up 13 per cent for cattle and 41 per cent for hogs compared to the corresponding period in 1945. These heavy marketings were accomplished by disposing of animals which normally would have been fed to heavier weights and marketed later in the year. Data on weights of hogs and cattle slaughtered under Federal inspection, as well as general market observations, indicate this occurred. Also there is considerable evidence that many sows which had been intended for breeding purposes were slaughtered.

It appears that Corn Belt feed lots were largely emptied of cattle on fattening rations and that relatively large numbers of cattle moved to slaughterers from grazing areas during the decontrolled period. The movement of grass cattle was further stimulated by drought conditions at this time in the Southern Plains and the Southwest. Current indications are for a total slaughter of cattle and calves in 1946 of about 31 million head and an increase in the number on farms January 1, 1947. Thus, the potential supply of cattle is large.

A large part of the recent meat scarcity is attributed to the distortion of the normal seasonal pattern of marketings resulting from the very unusual price situation of recent months and the uncertainty of future Governmental action in this respect. Removal of price controls may have a beneficial effect on the seasonal distribution of slaughter.

REGIONAL SHIFTS IN SLAUGHTER

The meat scarcity in some centers was intensified by regional shifts in the slaughter of livestock. Of the total local slaughter of cattle from receipts at 67 public markets, the percentage slaughtered at Baltimore, Buffalo, Jersey City, and Pittsburgh increased from 6.4 per cent in the first 8 months of 1945 to 9.2 per cent in the corresponding period of 1946. At the Cincinnati, Detroit, Evansville, and Indianapolis markets the increase was from 7.6 per cent to 11.0 per cent. The increase at Pacific coast markets was from 5.7 to 6.6 per cent. Large midwest market centers revealed rather sharp declines in the per cent of total slaughter performed. The situation on hog slaughter is similar, but the shifts are less significant. Federally inspected slaughter showed regional shifts of a similar nature, particularly for cattle. These regional shifts contributed to distortions in the normal pattern of distribution of meat supplies and accentuated shortages in some areas.

SEVENTH FEDERAL

RESERVE DISTRICT